GOVERNMENT OF INDIA
COMMERCE AND INDUSTRY
LOK SABHA

UNSTARRED QUESTION NO:778
ANSWERED ON:21.02.2003
CREDIT TO TEA SECTOR
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Will the Minister of COMMERCE AND INDUSTRY be pleased to state:

(a) whether a Working Group (Madhukar Committe

(e) appointed by the Reserve Bank of India has come out with a series of recommendations to ease credit flows especially for tea sector;

(b) if so, the details thereof;

(c) the details of recommendations of said Group that have been implemented so far; and

(d) the details of recommendations which are yet to be implemented and the reasons therefor?

Answer

MINISTER OF COMMERCE AND INDUSTRY (SHRI ARUN JAITLEY)

(a) : Yes Sir.

(b) to (d) : Based on the report submitted by a Working Group constituted by the Reserve Bank of India under the Chairmanship of Shri Madhukar, Chairman and Managing Director, United Bank of India to study the problems of the tea industry in depth, RBI has announced, in August, 2002 a relief package which provides for restructuring/reschedulement of the loans outstanding in the tea sector from the commercial banks etc. RBI has also announced on 5th February 2003 a separate relief package for small tea growers and Bought Leaf Factories and also certain changes in the package announced earlier in August 2002 for large tea growers and manufacturers.

The credit relief packages announced by the RBI cover the following:-

- The seasonal deficit of tea borrowal accounts (classified as standard assets) may be converted to a term loan repayable within a period not exceeding 5 years, subject to the conditions that at least 60% of the peak hypothecation outstanding has been liquidated by the borrowers.

Subsequently on 5.2.2003, RBI has announced that in view of the difficulties faced by the industry, the period of repayment, the amount of dues considered for restructuring and dues required to be paid upfront by the borrowers may be decided by the individual banks themselves. It has also been stated that the restructuring exercise may also be made applicable to the Cash Credit Limits of the tea borrowers. RBI has also extended the above modifications, as a one time measure, to the loans restructured recently under the Madhukar Committee`s recommendations.

- Extension of period to liquidate the working capital dues of last season, may be allowed up to a maximum of six months in those cases where the entire outstanding is backed by stock of tea or the prompt (receivables) without affecting the drawings and the working capital limit of current season, provided at least 60% of the peak hypothecation outstanding has been liquidated and in this case there is no need of conversion of working capital limit of term loan as stated above.

With reference to a modification suggested that the 60% ceiling may be relaxed to 50%, RBI has now left the decision to the discretion of the individual banks.

- Release of need based working capital finance for current season based on realistic projection keeping in view the production track record, accepted price level, market demand etc. may be allowed in accounts classified as standard assets.

- Reschedulement of existing term loan repayment schedule on the basis of borrowers future projection and repayment capability may be allowed.

- After the conversion/restructuring/reschedulement in the tea account, the term loan as well as working capital limit shall be treated as current dues and need not be classified as NPA, provided that all the time of conversion/restructuring/reschedulement, the account was classified under standard assets as per the prudential norms issued by RBI from time to time.The asset classified thereafter would be governed by the revised terms and conditions adopted at the time of restructuring of the account.

- Fresh Working Capital Term Loan in accounts classified as standard assets, may be allowed under certain conditions. This facility would be granted to genuine good borrowers with satisfactory track record having a minimum debt equity ratio of 3:1 and who have not diverted the fund by way of investment in other companies, transferring fund to the subsidiaries group companies or created asset other than productive purpose.

- Bank may allow a rate of interest upto, two stages better than the rate as applicable to such borrowers according to its credit rating by the individual banks, subject to the condition that after such reduction the rate of interest should not be below PLR.

Relief Package for Small Tea Growers ;

- The existing term loan extended to Small Tea Growers holding not more than 10 hectares which were outstanding as at 30.6.2002 and classified as Standard Assets may be consolidated into a single term loan as a `Special Tea Term Loan (STTL 2002)`. The repayment period of this term loan would be determined on case to case basis depending upon their repayment capabilities subject to the condition that the overall period of repayment shall not exceed 7 years including a maximum moratorium period of one year.

- Regarding charging of interest, the issue is left to the banks to decide based on their commercial judgement and loan policy in this regard.

- During the moratorium period, the tea growers shall pay the interest portion.

- The portion of existing Cash Credit Account which is not covered by the primary securities, shall not be less than 60% of the limit and this portion of uncovered dues (not exceeding 60% of the limit) shall be considered for conversion to a Term Loan subject to the following conditions-

- 20% of such uncovered portion shall be repaid by the farmers.

- Remaining 80% will be converted to term loan.

- The loan will be merged with STTL 2002.

- Financing banks will satisfy itself that the uncovered portion in the account is only due to low price realisation or deficit in production and not due to any diversion of funds.

- Sanction of fresh crop loan may be considered as per scale to be advised by the Tea Board on annual basis.

- Small growers who want to take up pruning may be given a term loan of Rs.7000 per acre (average pruning cost plus loss of income on account of pruning) with applicable rate of interest repayable within 3-4 years provided such expenditure of pruning is not included in the cash budget and also the margin being brought in by the borrowers as per the lending policy of individual bank.

Relief Package for Bought Leaf Factories

- The portion of the existing outstanding dues in working capital limit which is not covered by the Primary Securities against which the facility was allowed should not exceed 60% of the total working capital limit. For this purpose any outstanding dues in adhoc limit/excess drawing in temporary overdraft account etc. should also be added to the outstanding dues in working capital limit. This uncovered portion (not exceeding 60% of the working capital limit) may be considered for conversion to a Term Loan subject to the following conditions:-

- 20% of the uncovered portion should be liquidated by the borrowers and the remaining 80% (not exceeding 60% of the limit) shall be converted to the loan.

- The uncovered portion of the limit should not be on account of diversion of funds.

- Repayment period of converted term loan shall be determined on the basis of repayment capability of each individual cases but not exceeding 5 years including a maximum moratorium period of one year.

- Interest shall be paid during the moratorium period.

- Re-phasing of existing term loans may be considered on the basis of merit in each case.

- Fresh working capital limit can be sanctioned to Bought Leaf Factories whose accounts are Standard Assets and based on the current requirement and as per norms to be decided by NABARD/SLBC concerned.

- For sanction of such additional working capital facilities, fresh additional collateral securities need not be insisted upon in cases where the value of existing collateral securities is adequate to cover the existing plus additional limit sought for. The margin requirement will be as per the norms of individual banks. The liabilities to the brokers should be taken care of while determining the financial viability of the units.

- The concession in the rate of interest as announced in respect of large tea growers may be allowed to Bought Leaf Factories also.

Most banks which have major exposure to tea sector, have started implementing the relief packages announced by the RBI based on necessary requests by way of application made to them by the borrowers concerned.